

Message Text

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ACTION NEA-12

INFO OCT-01 EUR-25 ADP-00 NEAE-00 SSO-00 INRE-00 EB-11

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CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03 NSAE-00 NSC-10

PA-03 RSC-01 PRS-01 SS-15 USIE-00 RSR-01 AF-10 /138 W

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FM AMEMBASSY JIDDA

TO SECSTATE WASHDC IMMEDIATE 4646

INFO AMCONSUL DHAHRAN

AMEMBASSY ABU DHABI

AMEMBASSY BEIRUT

AMEMBASSY KUWAIT

AMEMBASSY TEHRAN

AMEMBASSY VIENNA

AMEMBASSY LONDON

AMEMBASSY PARIS

C O N F I D E N T I A L JIDDA 3461

LE.O. 11652: GDS

TAGS: ENGR, SA

SUBJ: SUBJECTS FOR DISCUSSION AT SEPT 15 OPEC MEETING

SUMMARY: YAMANI DESCRIBED THREE MATTERS HE EXPECTED COME UP AT SEPT 15 OPEC MEETING CALLED TO DISCUSS PROVISIONS OF TEHRAN AGREEMENT: ANNUAL 2.5-PERCENT PRICE INCREASE TO COMPENSATE FOR INFLATION IS INADEQUATE SINCE INFLATION WORLDWIDE NOW RUNNING AT MUCH HIGHER LEVEL; TAX RATE INCREASE--IRAQIS SEEKING RAISE TAX FIGURE FROM 55 TO 70 PERCENT WHICH WOULD LEAD TO IMMEDIATE INCREASE IN POSTED PRICE AND REALIZED PRICE WHICH COMPANIES WOULD PASS ON TO CONSUMERS; PRICE OF BUY-BACK OIL--GENERAL INCREASE PETROLEUM PRICES IN MONTHS SINCE BUY-BACK PRICE SET AT DOLLARS 2.05 HAS YIELDED WINDFALL PROFITS TO COMPANIES AND GOVTS NOW ENTITLED SHARE SOME OF THIS. YAMANI SEEMS TO THINK HE CAN SUPPORT RECOUPMENT IN PRICE OF BUY-BACK OIL AS SUBSTITUTE FOR TAX INCREASE, BUT WE WONDER IF HE IS NOT CONFIDENTIAL

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SIMPLY SEEKING CONVINCE US THAT HE IS WORKING AGAINST INCREASE IN TAX RATE BY EMBARKING ON A DIVERSION TACTIC. LATTER MAY NOT WORK, HOWEVER, SINCE IMPROVEMENT IN REMUNERATION FOR BUY-BACK OIL CAN HAVE LITTLE APPEAL TO MANY GOVTS WHOSE AGREEMENTS DO

NOT PROVIDE FOR IT. END SUMMARY.

1. DURING MEETING WITH YAMANI AUGUST 12 HE SAID HE WANTED TO GIVE ME RUNDOWN ON MATTERS WHICH WOULD ARISE AT EXTRAORDINARY OPEC SESSION SCHEDULED FOR SEPTEMBER 15, WHICH HAS BEEN CALLED TO CONSIDER REVISION OF TEHRAN AGREEMENT.

2. YAMANI EXPECTS THREE SUBJECTS WILL PROVIDE MAIN SUBSTANCE OF DISCUSSIONS:

A. INFLATION FACTOR--GOVTS SAY TEHRAN AGREEMENT'S PROVISION FOR ANNUAL 2.5-PERCENT INCREASE IN OIL PRICES IS INADEQUATE AND NEEDS UPWARD ADJUSTMENT SINCE WORLD INFLATION RATE GENERALLY IS RUNNING AT AROUND SEVEN PERCENT. YAMANI THOUGHT PRODUCING GOVTS WOULD HAVE NO PARTICULAR DIFFICULTY REACHING AGREED POLICY POSITION ON NEED FOR INCREASE IN INFLATION FACTOR THOUGH HE DID NOT SPECIFY HOW MUCH. HE OPINED COMPANIES SHOULD NOT FIND THIS REQUEST UNREASONABLE.

B. TAX RATE LEVEL--IRAQIS, YAMANI SAID, ARE ANXIOUS RAISE TAX FIGURE FROM 55 TO 70 PERCENT. THIS, OF COURSE, WOULD LEAD TO IMMEDIATE INCREASE IN POSTED PRICE AND REALIZED PRICE, WHICH COMPANIES WOULD QUICKLY PASS ON TO CONSUMERS.

C. PRICE OF BUY-BACK OIL--YAMANI CLAIMED MUCH OF SHARP INCREASE IN PROFITS EXPERIENCED BY MAJORS OVER PAST SIX MONTHS HAS BEEN RESULT OF VERY FAVORABLE (FOR THEM) TERMS OF PURCHASE AND RESALE OF BUY-BACK OIL. (LATTER IS PORTION OF PRODUCTION TO WHICH SAG ENTITLED UNDER TERMS OF PARTICIPATION AGREEMENT, BUT WHICH AT TIME OF CONCLUDING DETAILS OF AGREEMENT SAUDIS AGREED NOT TO MARKET THEMSELVES BUT TO MAKE AVAILABLE TO OWNER COMPANIES.) THUS, BUY-BACK PRICE SET AT ABOUT DOLLARS 2.05 MANY MONTHS AGO. SHARP RISE IN PETROLEUM PRICES IN INTERVENING PERIOD HAS ENABLED COMPANIES TO HARVEST EXTRA 40-50 CENTS PROFIT PER BARREL. YAMANI DECLARED THIS HAS BEEN DISCUSSED WITH ARAMCO PARENTS WHO, HE ASSERTS, UNDERSTAND VALIDITY OF SAUDI VIEW THAT SAG SHOULD SHARE IN THIS WINDFALL. HE BELIEVES THAT AS FAR AS CONFIDENTIAL

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COMPANIES ARE CONCERNED MATTER IS NEGOTIABLE.

3. YAMANI SEES B AND C ABOVE AS ALTERNATE PATHS FOR ACHIEVING SAME GOAL: ENHANCEMENT OF GOVTS' SHARE OF INCOME. IF OPEC DECIDES GO FOR TAX INCREASE, THEN CONSUMERS WILL SUFFER. IF, HOWEVER, GOVTS CAN WORK IT OUT TO SECURE CONSIDERABLE GAIN ONLY THROUGH ADJUSTMENT OF BUY-BACK ARRANGEMENT, THEN COMPANIES, ACCORDING TO YAMANI THEORY AT LEAST, WILL BE COMPELLED TO ABSORB MOST OF BURDEN OF INCREASED BENEFITS GOING TO GOVTS.

4. YAMANI RECOGNIZES THAT INCREASED TAX ROUTE WILL TEND BE MORE POPULAR ONE AT OPEC MEETINGS, SINCE RELATIVELY FEWER GOVTS HAVE KIND OF BUY-BACK OIL ARRANGEMENTS PREVAILING FOR SAUDI ARABIA

AND OTHER SMALLER GULF STATES WHICH HAVE ACCEPTED SAUDI-STYLE PARTICIPATION. BUY-BACK OIL HAS, FOR EXAMPLE, NO RELEVANCE TO IRAN'S ARRANGEMENTS WITH CONSORTIUM, BUT YAMANI PLANS TRAVEL TEHRAN NEXT FEW DAYS CONVINCE GOI, WITH WHOSE SENIOR OIL OFFICIALS HE HAS GOOD, SYMPATHETIC RELATIONS, SUPPORT SAUDI VIEW-POINT. HE SAW ALGERIA AND IRAQ SUPPORTING TAX INCREASE VIEW-POINT AT OPEC MEETING. HE COUNTS ALSO ON SMALLER GULF COUNTRIES AND EVEN KUWAIT TO HELP HIM IN TAKING LINE THAT RENEGOTIATING BUY-BACK PRICE IS PREFERRED METHOD GETTING MORE INCOME.

5. SPEAKING ABOUT ENTIRE GULF PICTURE, YAMANI SAID COMPANIES WERE ON NOTICE AT SAUDI ARABIA WOULD BE WATCHING VERY CAREFULLY TERMS OF WHATEVER AGREEMENT IS EVENTUALLY WORKED OUT WITH KUWAIT. IF IT PROVED THAT REAL BENEFITS FOR KUWAITIS WERE HIGHER THAN THOSE NOW BEING RECEIVED BY SAUDI ARABIA, THEN LATTER WOULD, OF COURSE, SEEK ADJUSTMENT OF CURRENTLY EXISTING PARTICIPATION TERMS IN ORDER ASSURE EQUAL BENEFITS FOR SAG WITH, YAMANI SAID, "PERHAPS LITTLE BIT MORE." KUWAITIS HAD, OF COURSE, BEEN MOTIVATED HOLD BACK FROM APPROVING PARTICIPATION TERMS ACCEPTED BY OTHER GULF GOVTS BECAUSE OF THEIR FEELING IRANIANS HAD OBTAINED SOMETHING BETTER. WHEN I NOTED IT OUR CLEAR IMPRESSION IRANIANS NOT AT ALL CLAIMING THEIR DEAL WAS BETTER THAN THAT OBTAINED BY GULF STATES, YAMANI REMARKED, "NOT ECONOMICALLY, OF COURSE, BUT POLITICALLY IT IS BETTER SINCE IRANIANS HAVE OBTAINED GREATER DEGREE OF CONTROL." (LEARNED LATER THAT IRANIAN CONSORTIUM HAS SET THREE OF ITS REPRESENTATIVES TO SAUDI ARABIA TO EXPLAIN TO MINISTRY OF PETROLEUM PRECISE NATURE OF BENEFITS IRAN OBTAINS UNDER TERMS CONFIDENTIAL

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ITS AGREEMENT WITH CONSORTIUM.)

6. COMMENT: YAMANI, AS USUAL, WAS STRIKING HIS ENLIGHTENED-OIL-STATESMAN POSE, SOLICITOUS OF CONSUMER INTEREST, AND WARNING COMPANIES INDIRECTLY THEY SHOULD RESIST ANOTHER DISRUPTIVE UPWARD SPIRAL IN PARTICIPATION AGREEMENTS. FROM HERE YAMANI'S COURSE OF ACTION BASED ON INCREASING PRICE OF BUY-BACK OIL WOULD SEEM APPEAL TO RELATIVELY FEW OF OTHER PRODUCING COUNTRIES AS SUBSTITUTE FOR RISE IN TAX PERCENTAGE. COULD IT BE THAT YAMANI IS ENDEAVORING BUILD ELABORATE FACADE PROVE THAT INITIALLY HE ENDEAVORED DEVELOP TACTICS TO COUNTER THOSE OF GOVTS SEEKING TAX PERCENTAGE INCREASE BUT THAT DESPITE HIS BEST EFFORTS TACTIC FAILED AND ULTIMATELY HE WAS COMPELLED JOIN RANKS THOSE SEEKING TAX INCREASE?

THACHER

CONFIDENTIAL

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